



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 12/13/2002

GAIN Report #UK2029

United Kingdom

Wine

Marketing Annual

2002

Approved by:

Deanna M. J. Ayala

U.S. Embassy, London

Prepared by:

Jennifer Jones

Report Highlights:

The UK is the largest importer of wine by value in the world and is seen as a key target market by most wine producing nations. As the UK produces very little wine, imports essentially account for 100% of the market. The UK is the largest export market for U.S. wine and their success shows no sign of abating with 25-30% volume growth year on year, mirrored annually by a 20-25% increase in value.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
London [UK1], UK

Table of Contents

General Summary	1
Production	2
Consumption	2
International Trade	6
UK Imports	
Still Wine	8
Sparkling Wine	9
Vermouth	10
UK Exports	
Still Wine	11
Sparkling Wine	11
Vermouth	12
Market Dynamics	13
Opportunities for U.S. Wines	15
Marketing	16
Distribution	17
Market Access	18
Regulatory Requirements	19
Taxes	23

General Summary

The UK is the largest importer of wine by value in the world. It is a key, if not primary, target export market for most wine producing countries, but particularly Australia and the United States. The UK consumer has access to an unrivaled range of countries of origin and varieties with the bulk of sale controlled by the major UK supermarket chains. UK consumption of wine has been increasing at the expense of beer, with per capita consumption up by 40 percent over the last ten years. Red wine consumption has now overtaken white wine, which is thought to indicate the maturity and increasing level of knowledge of UK consumers. The UK wine consumer profile has changed little in recent years, generally he/she is over 25 and in the upper middle/middle class (classified as AB social grade) and are drinking more frequently, particularly at-home.

The outlook for U.S. wine continues to be bright. According to UK Customs data, the import volume of U.S. still wine increased by nearly 29 percent in 2001 to reach 734,000 HL. The forecast for 2002 shows UK imports of U.S. still wine likely to increase again by a similar percentage (30 percent) by volume to reach 954,000 HL. Total third country (non-EU) imports increased by 18 percent in 2001 and are forecast to increase a further 19 percent in 2002 to reach 4,257,000 HL.

Consolidation within the wine-making industry and the proliferation of global brands have a large part to play in current UK wine consumption patterns. Consumers look to brands to deliver consistent quality at the right price. Countries with large, prominent winery brands such as Australia and the United States are eroding the market for lesser known wines from traditional European suppliers. Import volumes of still wine from the EU showed something of a resurgence in 2001 with a 6 percent increase to 4,773,000 HL. However, total imports of still wine from the EU are forecast to fall back again by that 6 percent in 2002 to 4,470,000 HL, and as value has not increased it is clear that the traditional European suppliers have much to do to regain market share. France continues to see its share of the market diminish, although the EU volume resurgence in 2001 was mainly led by France, the value of French imports is not predicted to recover. Italy and Spain appear to be holding on to their value market share for the moment, but steadily losing ground in volume terms. Germany is showing more signs of decline than the others, with its volume and value steadily decreasing.

Following the predictable increase in UK volume sales of sparkling wine in 1999, prior to the Millennium celebrations, sales were static in 2000. However, the advantageous prices on offer, widespread availability and an increasing portfolio in the UK off-trade has allowed the category to expand post-2000 in both volume and value terms. New World wines and Spanish Cava are driving market growth and the future for sparkling wine looks promising as UK consumers are adopting its usage for more informal occasions.

The market for vermouth and other flavored or aromatized wines is in decline and total UK imports and fell by 13 percent to 145,000 HL in 2001. The U.S. is not a major UK source for vermouth and other flavored or aromatized wines.

Production

Wine production in the UK is minimal due to climate. Historically, it has been a cottage industry for wine enthusiasts and gentleman farmers. Today, it is slowly becoming more mainstream but has limited potential for large scale production - half of all vineyards operate in an area of less than 1 hectare. There are around 350 vineyards in England and Wales covering about 840 hectares. In 2001, production was recorded at 15,800 hectoliters, only 0.01 percent of UK wine consumption. Production is predominately white wine (92 percent), however, increasingly sparkling, dessert and red wines are now also being produced.

The UK also produces a small quantity of “made wine”, which is made from imported concentrated grape must, mainly from Italy.

The lack of any significant production volume in the UK means that it does not affect market figures. UK production figures are therefore not represented in the following analyses.

Consumption

As UK production is minimal, consumption figures are equated to imports less exports.

UK market size

	2000 (revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	BPS '000	BPS mil
Still Wine	7,305	1,272	8,173	1,392	8,552	1,487
Sparkling Wine	1,439	278	1,740	316	2,109	365
Vermouth	147	11	134	14	124	11
TOTAL WINE	8,891	1,561	10,047	1,722	10,785	1,863

Source: Imports less exports as taken from GTI World Trade Atlas/HM Customs & Excise

According to Mintel market research, the UK wine market is now worth an estimated £8.1 billion in sales through both retail outlets and foodservice outlets.

As can be seen in the following table, UK wine consumption continues to grow, mainly at the expense of beer. The market for still wines is thought likely to continue growing in the short term. Within this context, there will be a continued increase in consumers 'trading up' to more expensive wines, an increase in knowledge about wine regions, and the growth of brands.

UK Per Capita Consumption of Alcoholic Beverages

Year	Beer (L)	Cider/Perry (L)	Made Wine (L)	Wine of Fresh Grapes (L)	Spirits (LPA)
1990	139.8	7.86	1.51	14.23	2.10
1999	122.4	12.51	4.71	19.29	1.91
2000	117.8	12.40	6.79	20.03	1.93
2001	120.2	12.20	8.42	21.34	2.00

L = Liters; LPA = Liters of Pure Alcohol - Figures based on population aged 15 years and over

- Made wine is produced from imported grape must which is blended and bottled in the UK

Source: The Drink Pocket Book, 2003

UK wine consumption has grown phenomenally in the last ten years, and while it is apparent that it has grown at the expense of beer and spirits, the increase is mostly a result of habitual wine drinkers drinking more frequently. Research for Mintel Retail Intelligence reports that two-thirds of consumers interviewed drink wine. The ease with which wine can now be purchased along with the weekly grocery shopping has fueled its consumption as an everyday drink. Increased affluence is also a factor in the growth of everyday wine drinking.

It is reported that market penetration has fallen - the percentage of all adults who bought one bottle of wine per month fell from 22.8% in 1997 to 13.3% in 2001, meanwhile the percentage of all adults who bought three bottles of wine per month fell from 9.3% to 6% over the same period. In other words while UK distributors continue to sell more, they are doing so to the same people, and failing to attract new drinkers. (Source: just-drinks.com). In the long term, the UK wine trade will need to do more in terms of new product development and advertising to attract younger consumers.

Wine drinking in the on-trade (pubs, restaurants, etc.) has increased significantly. It appears that greater consumption of wine within the home is fueling this trend, together with greater brand recognition and wider wine ranges within pubs and restaurants. Wine has certainly benefitted from the increase in standard of food available through UK pubs.

The tables below show consumption according to age, gender and social group. Weekly consumers of table wine generally are of the 35-49 years of age category and the AB socio-economic group. Not reflected in the table, but worth noting, is that wine is consumed on a *daily* basis most heavily by those consumers in the 50+ years age range.

Percentage of People Drinking Wine Weekly:					
% by Age Group			% by Social Grade		
	2000	2001		2000	2001
18-24 yrs	23	8	AB	51	37
25-34 yrs	31	20	C1	34	32
35-49 yrs	34	32	C2	23	17
50+	27	40	DE	14	14

Social Grade Definitions:

- AB Upper Middle/Middle Class i.e. higher/intermediate managerial professional
- C1 Lower Middle Class i.e. junior managerial professional
- C2 Skilled Working Class i.e. skilled manual worker
- DE Working Class i.e. unskilled manual worker

Much of the recent increase in UK volume and value wine sales is due to consumer demand for red wine. The claimed health benefits of red wine have been broadcast widely to the UK audience. UK consumers show a preference for easier-to-drink red wines which are affordable, lighter and fruitier. These are now more readily available and are mainly of "New World" (e.g. Australia, New Zealand, Chile, South Africa, the United States, Canada) origin. Overall red wine consumption exceeded white wine consumption in value terms for the first time in 2000 and is said to be leveling out at around 52%.

Rosé wines form a relatively minor part of the wine market, accounting for only some 3-4 percent of total value sales. White wine sales have increased steadily, but not on the same scale as red wine. Red wine has exceeded white wine in value terms because of its generally more expensive price point. Sales of white wine have increased particularly amongst the youngest age bracket, since 18-24 year-olds are almost twice as likely to drink white wine as they are red. And in general, sales and volume growth of white wine will continue to be very buoyant.

Profile of Wine Drinkers: by Wine Color 2001

Wine Color		White %	Red %
SEX	Men	50	33
	Women	50	67
AGE GROUP	18-24	5	8
	25-34	19	20
	35-49	34	32
	50+	42	40
SOCIAL GRADE	AB	45	35
	C1	32	31
	C2	14	17
	DE	9	16

Base = 7 Day Drinkers Source: The Drink Pocket Book, 2003

Within the younger age groups of wine consumers there is increasingly a more informal approach to wine drinking. This can be attributed to the way in which some wine, particularly Australian and other "New World" wines have been marketed using lifestyle messages to which young people can relate. European wine, particularly French, is said to be too complicated for many consumers in that the customer has to understand more about the grape variety and producer to appreciate what they are buying.

Trade figures are categorized by where wine is consumed i.e. either in "on-license" premises (pubs, clubs, restaurants and hotels) or bought from an "off-license" establishment (grocery store, multiple) and consumed at home. The UK wine market is primarily off-license trade based, and traditionally most wine is consumed at home. Typically, consumers spend between \$4.50-\$7.50 (£3-£5) per bottle in the off-trade, while in the on-trade, consumers regularly pay \$3.75-\$4.50 (£2.50-£3.00) per glass in a pub, and \$15 (£10) or more on a bottle of wine in a restaurant.

The Top 5 Wine Brands, 2001 for Still Light Wines

	<u>Off-License</u>	<u>On-License</u>
1	Gallo	Stowells Wine Box
2	Jacob's Creek	Blossom Hill
3	Stowells Wine Box	Stamp's
4	Blossom Hill	Jacob's Creek
5	Hardy's Stamp	Gallo
Combined Market Share:	12.7%	12.2%

Top 20 Still Wines in Off-Licences (Great Britain): Ranking By Type

Rank	Wine Type	Market Share	Rank	Wine Type	Market Share
1	Australian White	8.6	11	South African Red	2.7
2	Australian Red	8.3	12	Bordeaux Red	2.3
3	South African White	5.1	13	Vino da Tavola Red	2.3
4	Vin de Pays Red	5.0	14	Soave White	2.2
5	Liebfraumilch	4.7	15	Chilean White	2.2
6	Chilean Red	3.8	16	Rioja Red	1.9
7	U.S. Red	3.7	17	Bulgarian Red	1.8
8	Vin de Pays White	3.4	18	Vino De Mesa Red	1.8
9	Tafelwein Hock	3.2	19	Vallee du Rhone Red	1.8
10	U.S. White	3.1	20	Vin de Table White	1.5

Figures are for year to November/December 2001/Ranking is by volume

Source: ACNielsen; The Drinks Pocket Book, 2003

Price is the most important factor in the UK consumer's purchasing decision, after the choice between red, white or rosé wine. Wine consumption in the UK is mainly price-led and the major dividing line is \$7.50 (£5) per bottle. Consumers are becoming more adventurous in terms of taste and geography as their wine knowledge expands. They are choosing wine by grape varieties, region and brand. Varietal labeling has become well established in red as well as white wine production, with Cabernet Sauvignon matching Chardonnay in popularity over the last few years.

International Trade

Still light wine

In 1995, French, German and Italian wines together accounted for around two-thirds of UK still wine consumption by both volume and value. This figure has now dropped to nearer 35% and is still falling. European suppliers vs non-EU countries show a market share 57:43 percentage split for 2001, with forecasts indicating that the New World will continue to take market share from traditional wine suppliers. So, despite the duty placed on wine from third countries, the statistics and the product range available show that third countries can still attain a retail price that is competitive with wine from the EU.

As predicted, imports of still wine from the EU did show a small resurgence in 2001. Using UK Customs & Excise figures this was a rise of 6 percent to 4,773,000 HL in 2001. However forecasts show that volume and value will stabilize in 2002. France continues to see its share of the market diminish, and while 2001 figures show a return to 1999 volumes, the value of French imports did not follow suit. Also forecasts for 2002 show France stabilizing at around 2 million HL. The French industry is reportedly undertaking to reverse this trend by developing a new marketing strategy (please see Market Dynamics section). However, trade sources report that the current trend towards suppliers

from outside the EU - mainly branded wines - will be difficult to change.

France, is in the unique position - across the Channel - of benefitting from the growth in UK consumers' cross-border wine shopping excursions. The UK's Wine & Spirit Association (WSA) has undertaken research which estimates that cross-border wine sales have risen steadily since 1992 to reach 15 percent of the total UK wine market. This increases to 20 percent in the case of sparkling wine. Cross-channel purchases are very often event-driven as the purchasing of large quantities offers the largest saving. Hence family events such as weddings will prompt the extra effort involved in the trip.

Australia is the main non-EU source of UK imports, with a share of 17 percent (1,452,000 HL) in 2001. UK imports of U.S. still wine, the second major extra-EU supplier, have also showed strong consistent growth in recent years. According to UK Customs data, UK import volume of U.S. still wine increased by nearly 29 percent from 570,000 HL in 2000 to reach 734,000 HL in 2001. U.S. market share is also steadily increasing -- it reached 9 percent in 2001, up from 6.5 percent in 1999. The forecast for 2002 shows UK imports of U.S. still wine likely to increase again by a similar percentage (30 percent) by volume to reach 950,000 HL. The Market Access Program and U.S. exporter assistance have been instrumental in encouraging this growth.

Total third country (non-EU) imports increased by 3 percent in 2001 and are forecast to increase a further 5 percent in 2002 to reach 4,257,000 HL. Of additional interest is that many of the wines from the "New World" countries of Australia, New Zealand and the United States are commanding higher average prices in the UK than wines from the traditional markets of France, Italy and Spain.

Sparkling wine

Following the predictable increase in UK volume sales of sparkling wine in 1999, prior to the Millenium celebrations, sales were static in 2000. However, the advantageous prices on offer, widespread availability and an increasing portfolio in the UK off-trade has allowed the category to expand post-2000 in both volume and value terms. New World wines and Spanish Cava are driving market growth. The sparkling wine market is more fragmented than many categories of the drinks market, with suppliers, both large and small, from around the world. Brands provide wine drinkers with quality assurance and command just under half of the UK market volume.

The Champagne market has continued to grow throughout 2002, but as in much of 2001 the expansion is fueled by discounting, particularly by major supermarkets who use Champagne as a tool to draw in customers. Three multi-national drinks companies control over a quarter of all Champagne sales – Allied Domecq, Louis Vuitton Moët Hennessy (LVMH) and Vranken-Monopole.

Vermouth & other flavored, aromatized wines

The market for vermouth and other flavored or aromatized wines is in decline, total UK imports fell by 13 percent to 145,000 HL in 2001. The U.S. is not a significant player in the UK market for vermouth

and other flavored or aromatized wines.

UK Imports

Still Wine HS:220421	2000(revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	HL '000	BPS mil

From EU:

France	1,896	402	2,042	406	2,020	404
Italy	1,050	150	1,119	147	875	125
Spain	638	106	716	121	675	130
Germany	725	79	700	65	690	70
Portugal	153	44	149	38	180	40
Other	30	11	47	13	30	14
Total EU	4,492	792	4,773	790	4,470	783

From Third Countries:

Australia	1,225	251	1,452	308	1,795	390
USA	570	104	734	134	954	160
Chile	367	74	433	88	450	85
S. Africa	394	66	497	82	672	100
Bulgaria	113	10	108	9	95	8
Argentina	116	21	111	22	88	15
New Zealand	96	28	103	33	113	40
Hungary	72	9	73	9	72	9
Other	57	17	54	20	18	8
Total Third Countries	3,010	580	3,565	705	4,257	815

Total Still Wine	7,502	1,372	8,338	1,495	8,727	1,598
-------------------------	--------------	--------------	--------------	--------------	--------------	--------------

UK Imports Continued

Sparkling Wine HS: 220410 + 220429	2000(revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	HL '000	BPS mil

From EU:

France	466	184	518	199	600	238
Germany	144	10	171	12	190	14
Spain	141	21	145	25	160	26
Italy	109	12	101	15	110	15
Other	6	13	5	16	5	5
Total EU	866	230	940	255	1,065	298

From Third Countries:

Australia	237	27	331	35	550	47
South Africa	137	7	184	11	208	11
Chile	100	9	147	10	144	9
USA	42	8	73	10	80	6
New Zealand	7	3	10	4	12	5
Other	70	6	78	4	70	1
Total Third Countries	593	60	823	74	1,064	79

Total Sparkling Wine	1,459	290	1,763	329	2,129	377
-----------------------------	-------	-----	-------	-----	-------	-----

UK Imports Continued**Vermouth & Other Wines Flavored with Plants or Aromatic Substances**

Vermouth etc. HS: 2205	2000(revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	HL '000	BPS mil

From EU:

Italy	80	6.9	61	8.2	51	6.0
France	55	5.3	58	4.1	63	4.3
Netherlands	18	1.4	14	1.0	9	0.6
Germany	10	1.0	9	1.6	3	0.3
Spain	3	0.5	3	1.2	2	0.3
Other	49	15.1	1	1.2	3	1.5
Total EU	167	15.4	146	17.3	131	13

From Third Countries: (liters; BPS)

Total Third Countries	0	0	1	0.1	0	0
------------------------------	----------	----------	----------	------------	----------	----------

Total Vermouth etc.	167	15.4	145	17.4	131	13
----------------------------	------------	-------------	------------	-------------	------------	-----------

UK Exports

Still Wine HS:220421	2000(revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	HL '000	BPS mil

To EU:	154	31.6	124	40.4	128	42.0
--------	-----	------	-----	------	-----	------

To Third Countries:

USA	9	36.1	8	31.0	13	30.2
Japan	4	10.5	2	6.8	3	7.9
Hong Kong	2	4.3	2	4.4	2	5.3
Other	28	17.8	29	20.2	29	25.6
Total Third Countries	43	68.7	41	62.4	47	69
Total Still Wine	197	100.3	165	102.8	175	111.0

Sparkling Wine HS: 220410 + 220429

To EU:	13.3	4.5	12.9	4.5	14.0	3.8
--------	------	-----	------	-----	------	-----

To Third Countries:

USA	2.0	3.9	2.8	4.2	2.0	4.0
Other	4.5	4.1	7.2	4.8	4.0	4.7
Total Third Countries	6.5	8.0	10.0	9.0	6.0	8.7
Total Sparkling Wine	19.8	12.5	22.9	13.5	20.0	12.5

UK Exports continued**Vermouth & Other Wines Flavored With Plants or Aromatic Substances**

Vermouth etc. HS:2205	2000(revised)		2001		Projected 2002	
	HL '000	BPS mil	HL '000	BPS mil	HL '000	BPS mil

To EU:	18	4.0	10	2.6	6	1.7
To Third Countries:	2	0.4	1	0.4	1	0.2
Total Vermouth Etc.	20	4.4	11	3.0	7	1.9

Source: GTI World Trade Atlas/HM Customs & Excise, UK

Import Values are based on CIF, landed UK port

Export Values are based on FOB

Exchange Rates: December 2001 1 \$ = 0.68 £ or 1 £ = 1.47
 December 2002 1 \$ = 0.62 £ or 1 £ = 1.61

Market Dynamics

Still light wine

Although the UK market for premium wines has steadily increased, the entry level price points for consumers over the past decade has remained largely untouched at around £3 and £4. The average price per bottle sold in the UK off-trade is still under £4 and some 95 percent of wine is sold at under £6.

France remains the largest supplier to the UK, despite some trade sources estimating that Australia might take the lead. After several years of seeing its market share eroded by the "New World" countries, the French industry appears to have decided that it is time to fight back. Trade sources report that a French wine industry Groupe Stratégique has been set up and charged with developing a plan to combat France's declining position in the world market. There is other evidence too that France is undergoing change. For example, a popular light-hearted television advertising campaign over the last year for Côtes du Rhône has ensured an increase in exports to the UK of 18 percent by volume and 11 percent by value for that region. This is being backed by an attempt to offer better quality and price stability. That said, France will find the going tough for the next few years as modernization and potential reform of the AOC system takes effect.

Italy is the second-placed "Old World" supplier to the UK and has continued to steadily increase its exports. Italian restaurants in the UK have traditionally been the key purchasers of Italian wines and particularly fashionable varietals currently are Bardolino and Sangiovese. Although there is increasingly access to good value distinctive Italian wines in retail outlets at the £4-7 mid-price range, the majority of Italian wine off-trade sales in the UK are under £3 (\$4.30), led by Lambrusco at £1.99. Italy is seeking to re-dress this by aiming to position well-known varietals such as Chianti or Pinot Grigio in the higher price categories.

The UK remains the largest market for German wines, despite the substantial fall in imports of German wine since the mid-1990s. Liebfraumilch was one of the most popular wines during the 1970s, but it has become symbolic of the 'cheap' and unsophisticated image which has negatively affected German white wines recently. Germany has also become a victim of changing UK consumer tastes (an increase in consumption of newer-style, drier wines and red wines) and the current trend of trading up to more expensive wines (mid-priced rather than low-priced). Industry sources say that a way forward for Germany is to promote classic Riesling at higher quality and price point.

Spain is forecast to continue as a key supplier to the UK, with the most popular Spanish wines in the UK being from the Rioja and Navarra regions. Other regions such as Valencia, La Mancha, Valdepeñas and Cariñena are also growing in popularity. Bulgaria, Hungary and (to a lesser degree) Portugal are all struggling in the fiercely competitive UK wine market. Bulgaria's exports to the UK peaked in 1996 and have been declining ever since. Bulgaria hopes to regain trust with entry level wines around the £3.99 price point and build from there. Hungary's export prospects appear to be in even greater difficulty (AC Nielsen figures show a 15% drop in volume in 2001). However, there are a

number of wineries who are producing mainstream varietals such as Pinot Grigio and Sauvignon Blanc which will appeal to the UK consumer more than Hungary's unfamiliar native varietals. Trade sources report that Portugal finds it difficult to deliver a large volume of quality wine at key UK price points. However, there appears to be a consensus that Portugal has a great potential for the future, despite many thinking only of Port when considering Portugal.

Australian wines are leading the "New World" wine challenge to "Old World" wines in the UK. Australia represents an unprecedented success story with their ability to produce consistently high quality wine targeted precisely to the modern consumer searching for predominantly "fruit driven" wine styles. Australia has also marketed its wine with great success in the UK. Frequent advertising and tastings are helping to bring consumers into the fold. The four largest companies in Australia - Southcorp Wines, BRL Hardy, Orlando Wyndham and Beringer Blass are driving this success. Australia represents the United States' chief competition in the UK.

South Africa originally entered the UK market with wines aimed at the inexpensive end of the market and did find it difficult to shake off the British consumers' perception of South Africa as a low price wine origin. However, with the advent of prominent brands, South Africa is seeing its export growth reach double figures year on year. There is reportedly particular demand for South Africa's single varietal wines like Shiraz, Merlot, Pinotage, Sauvignon Blanc and Chardonnay.

Similarly, Chile had been marketing themselves in the lower price bracket - it was normal up until recently to see Chilean wines on sale at \$4.50 (£2.99) in retail outlets. Today, Chile is now averaging \$6 (£4) a bottle and introducing entry level wine ranges to increase their brand visibility. A lack of branding is said to be Chile's current weakness.

Argentina has supposedly been on the verge of a breakthrough into the UK market for a number of years now. And although it has twice the vineyard coverage of Chile its success still lags a long way behind its South American neighbor in terms of UK success. Argentinian wines suffer from a lack of identity and image in the UK market. It also said to deliver inconsistent quality so that consumers become confused. The current political and economic climate in Argentina is also a factor, and at this time exports of Argentinian wine to the UK are decreasing.

New Zealand wine is relatively expensive compared with other "New World" countries. UK import statistics over recent years show that New Zealand has grown well, albeit from a small base. According to the figures for 2000, New Zealand's rate of growth looks to have slowed, perhaps, competition from Australia and the U.S. entering what was historically New Zealand's price bracket may account for the slowdown.

An interesting observation made by Wine & Spirit International Magazine is: "though, the current trend for rising New World retail prices may present an opportunity for more unlikely European heroes. If the New World countries orient themselves towards the top of the market, the doors will open for those who wish to take their place and position themselves in the low end of the wine market. In this game, the new players could very well be Eastern countries: Hungary, Bulgaria and Georgia. With low production costs, substantial grants from the likes of the European Bank of Development and

Reconstruction and enormous production capacities, the future could very well lie in the east." Wine & Spirit International Magazine, May 2002.

Sparkling wine

Sparkling wines have come into their own since the mid 1990s, capitalizing on the popularity of New World wines as well as cava from Spain, both of which have driven the volume market particularly. Improvements in quality have led to market growth and provide consumers with reassurance on a consistent basis. Retailers have expanded their sparkling wine portfolios accordingly, most of which have also expanded into own-label as well, perceived by some as the endorsement of the category's success.

Freixenet Cava is now the UK's best-selling sparkling wine, by both volume and value. It is also the one brand to have been advertised consistently during 1997-2001, aided by financial assistance from Wines from Spain and its generic promotion of cava wines.

Unlike champagne, consumers of sparkling wine, and particularly cava, associate it not just with special occasions but more informal, relaxed occasions, making drinking sparkling wine increasingly much like any other table wine.

There are many positive aspects for the future of the sparkling wine market, not least of which is the possibility of more sparkling red and rosé wines, the adoption of a wine merchandising blueprint for independent retailers, and the possibility of a reduced UK excise duty on sparkling wine (it currently has the same rate of excise as champagne).

Opportunities for U.S. Wines

The UK is a very competitive and price-sensitive market. The UK wine consumer is becoming increasingly discerning and expects quality at a very reasonable price. It is in the lower price range that U.S. wine has difficulty competing. In order to move volume of product through the UK mainstream multiple supermarkets and specialists, U.S. brands need to supply a good quality wine within the \$5.20 - \$7.50 (£3.49 - 4.99) final retail price range. Some examples of U.S. wines that have been successful in this area include Gallo, Blossom Hill and Corbett Canyon which have built up a sizeable presence in the sub-\$7 (£5) range, which is still the biggest sector of the UK market. In fact, the performance of these big brands under \$7 (£5) has been a major influence on the phenomenal year on year increase in U.S. exports to the UK.

However, above \$7.50 (£5), the U.S. has also seen massive growth – up 66 percent in 2000, according to AC Nielsen. Trade sources report that the \$7.50 - \$9.80 (£5 to £7) price bracket is fast-growing and the United States certainly has room to add more wines in this area. The U.S. has 10 percent market share of this price bracket, more than its overall market share for still wine. And there is still room for the market to grow given changing consumption patterns and the move toward higher-

priced wine. Major competitors will be Australia with 36 percent market share and France with 34 percent share of this price category.

UK consumers are becoming increasingly knowledgeable about grape varieties. Consumers who have bought the well established grape varieties of, for example, Cabernet Sauvignon, Merlot, Sauvignon Blanc and Chardonnay are looking for new tastes, and are prepared to try new varieties and different “parcels” of varieties. Dual varietals such as Fetzer’s Chardonnay Viognier and Zinfandel Shiraz, launched in the UK this year illustrate the category management which is being undertaken as single varietal wine prices are pushed up, dual varietals are brought in underneath.

Although the mainstream UK market is very price and brand driven, it must be said that there are other areas of opportunity for U.S. wines worth considering. These include more up-market restaurants, organic and kosher wines, and fine wines. Routes to market may differ slightly, in that a wholesaler or agent may be involved, but success for U.S. wines may be enjoyed in the niche as well as the mainstream. These niche markets are prime targets for smaller company wines from California and also wines from other U.S. states such as New York, Virginia, Texas, and the Pacific Northwest area.

Marketing

Expenditure on wine advertising during the 1990s was minimal compared with beer and spirits advertising. However, wine advertising in the UK has been noticeably increasing since 1996. Above-the-line expenditure is very seasonal in pattern, i.e. there is little advertising in the early months of the year, building to a peak in the final quarter for Christmas. UK multiple supermarkets control more than 70 percent of wine sales, and consequently, promotional spending by wine brands remains low as a proportion of total wine sales. Small European producers selling non-branded wines do not spend heavily on advertising. Where advertising has occurred, it has largely been on behalf of regions, such as Australian or Bordeaux wine councils, and has emphasized origin rather than brand.

It is "New World" wines that are driving the increase in wine advertising in the UK, mainly through the large companies in Australia and California. E&J Gallo and Hardy’s each spent nearly £1 million in 2001. However, most wine marketers are thought to want to keep wine’s ‘discovery product’ status. The four main reasons cited for consumers choosing a wine, which they have not previously purchased, are word-of-mouth recommendation, other special offer in-store, seeing it on display, and an in-store tasting. Word-of-mouth recommendation remains the single most important factor in building awareness of wine brands. [Source: Mintel Market Research]

Generic support for wine origins still remains an important part of wine marketing. A vast array of country and regional pavilions support the London International Wine & Spirit Fair each year. Several generic marketing offices or PR companies exist in the UK for promotion, for example of Argentinian, Chile, South African and Australian wine. The UK also has very active representation for Californian wines under the Wine Institute of California and Washington, Oregon and Idahoan states under the Pacific Northwest Wine Coalition.

London's major wine trade fair takes place annually, the next show is:

May 20-22 **London International Wine & Spirits Trade Fair**, ExCeL, London

Contact: Brintex Ltd Tel: 011 44 20 7973 6401 Fax: 011 44 20 7233 5054

Web site: www.londonwinefair.com E-mail: brintex@hemming-group.co.uk

Distribution

At the retail level, wine is sold either through "on-license" or "off-license" premises. In order for an outlet to sell alcohol it is necessary for the retailer to obtain a retailer license, of which there are two types - retail "ON" and retail "OFF". An On-License authorizes an outlet to sell alcoholic beverages for consumption on the premises, whereas an Off-License authorizes an outlet to sell alcoholic beverages for consumption away from the premises.

Over 70 percent of wine is sold through the off-license trade. Off-license outlets include specialized wine/alcoholic beverage stores and general grocery stores, including the major multiples. As is illustrated in the table below, the distribution of off-license sales can be divided up roughly into one quarter specialist wine/alcoholic beverage shops and three quarters grocery chains i.e. supermarket outlets. On the whole, the supermarkets are price-driven - seeking to reach the all-important price points of £3.99, 4.49 etc. while the specialist wine chains seek points of difference across a wider price range.

Large volume orders for UK multiple supermarkets and multiple specialists are placed with UK agents and distributors, who in turn order from the required country source on the multiple's behalf. It is not usual for the UK agent to hold the goods upon entry to the UK, but, rather ensure that they reach the designated distribution depot of the multiple. There are around 100 UK importers of various sizes, known to the U.S. Department of Agriculture office at the American Embassy, London. These can be accessed on-line at www.usda.org.uk

Larger wineries may have their own UK office, which again does not hold stock, but rather fills orders for the UK multiples. This gives the wine company increased control so as to ensure a quality and consistent service to the multiple.

Still Wines in Off-Licences by Outlet, 2001

OUTLET	£ million	%
Grocers	2,304	80
Co-ops	135	5
Multiples	1,980	69
Independents	189	6
Specialists	567	20
Multiples	474	17
Independents	93	3

TOTAL	2,871	100.0
--------------	--------------	--------------

The on-licence trade is serviced through UK wholesalers, who may source product from UK agents, importers or from wine producers themselves. Some of the larger restaurant chains source directly from the producer.

Still Wines in Great Britain On-Licenses by Outlet, 2001

OUTLET	£ million	%
Multiples	520	26
Managed Pub Chains	312	15
Leased/Tenanted Pubs	208	11
Independents	1,490	74
Pubs	223	11
Clubs	159	8
Hotels	347	17
Other Bars	160	8
Restricted	600	30
TOTAL	2,318	100.0

Source: AC Nielsen/The Drinks Pocket Book, 2003

Market Access

Wines consigned to the European Union from third countries must be accompanied by a document known as a V.I.1 Form which confirms the size and nature of the wine consignment. The provisions dealing with V.I. documentation may be found in Commission Regulation (EC) 3590/85 (OJ L343) as amended. The V.I.1 Form requires that U.S. wineries certify that all wine shipments over 60 liters are made in compliance with the Wine Accords Agreement and EU regulations. The form also requires that the exporter report the results of a number of chemical analyses. For subsequent travel through or within EU countries a Commercial Document or a Commercial Accompanying Document is also required.

In addition to a transit document, a T-form will be issued when the wine enters the European Union and this will establish entitlement to EU rates of duty.

Tariff duties are applicable to all third country wine imports. The tariff rate applicable is dependant on the strength band of the wine (i.e. not exceeding 13% volume, exceeding 13% but not exceeding 15% volume, etc.), the size of the container, and the type of wine (i.e. wine of fresh grapes or wine flavored with aromatic

extracts). It should be noted that sparkling wine (i.e. a wine having 1.5 bar or more over pressure inside the container or any wine packaged in a bottle fitted with a “mushroom” stopper held in place with metal ties or fastenings) is taxed more heavily than still wine. Import duties are in the order of 10-30 Euros per hectoliter.

Tariff quotas, which offer a reduced rate of duty, exist for a range of specific wine varieties from the following countries - Algeria, Bulgaria, Cyprus, Czech Republic, Hungary, Israel, Morocco, Romania, Tunisia and the Former Yugoslavia States.

A CAP Import License is required if a consignment of wine exceeds 3,000 liters. This license can be obtained by the UK importer from:

Rural Payments Agency (RPA))
Lancaster House, Hampshire Court
Newcastle upon Tyne, NE4 7YE
Tel: (+44) 191 226 5080/5207
Fax: (+44) 191 226 5212
Web: www.rpa.gov.uk

Market access may be denied by Customs & Excise if documentation forms are incomplete. If the labeling is incorrect then the wine will be allowed into bond but will not be released until the labels have been corrected. In either case storage charges are large so it is vital that the correct documentation/labels are provided.

Regulatory Requirements

For the labeling of still wines and grape must (including restrictions on the use of the word “wine”) the following EEC Regulations apply:

a) 2392/89 (OJ No. L232) - as amended by 3886/89 (OJ No. L378), 2356/91 (OJ No. L216), 3897/91 (OJ No. L368) and by the Act of Accession of the Kingdom of Sweden, the Republic of Austria and the Republic of Finland (OJ No. C241) and 1427/96 (OJ No. L184 including corrigendum OJ No. L233).

b) 3201/90 (OJ No. L309) - as amended by corrigendum (OJ No. L28, 2 February 1991) 2384/91 (OJ No. L219), 3298/91 (OJ No. L312), 153/92 (OJ No. L17), 3650/92 (OJ No. L369), 1847/93 (OJ No. L164) (OJ No. L168), 1362/94 (OJ No. L150 including corrigendum OJ No. L268), and 2603/95 (OJ No. L267), 692/96 (OJ No. L97), 1056/96 (OJ No. L140), 609/97 (OJ No. L93) and 1472/97 (OJ No. L200) and 2543/97 (OJ No. L347) apply and should be consulted.

For the labeling of sparkling wines and aerated sparkling wines the following EEC regulations apply:

a) 2333/92 (OJ No. L231) as amended by the Act of Accession of the Kingdom of Sweden, the Republic of Austria and Republic of Finland (OJ No. C241) and 1429/96 (OJ No. L184) and 1419/97 (OJ No.

L196)

b) 554/95 (OJ No. L56) as amended by 1915/96 (OJ No. L252) apply and should be consulted.

For the labeling of liqueur wines, semi-sparkling wines and aerated semi-sparkling wines the following EEC regulations apply:

a) 3895/91 (OJ No. L368)

b) 3901/91 (OJ No. L368)

For the labeling of aromatized wines, aromatized wine-based drinks and aromatized wine-product cocktails the following EEC Regulations apply:

a) 1601/91 (OJ No. L149) as amended by 3279/92 (OJ No. L327) and by the Act of Accession of the Kingdom of Sweden, the Republic of Austria and the Republic of Finland (OJ No. C241) and 3378/94 (OJ No. L366) and 2061/96 (OJ No. L277) apply and should be consulted.

The Common Agricultural Policy (wine) Regulations, 1996, SI 1996/696 - the “principal Regulations” as amended by the Common Agricultural Policy (Wine) (Amendment) Regulations, 1999, SI 1999/482 provide for the enforcement of EC Regulations in the UK, concerned with the production and marketing of wine and related products.

The above regulations are published in Official Journals (OJ) of the European Communities. These are priced publications from:

The Stationery Office, The Publications Centre, PO Bos 276, London SW8 5DT

General enquiries: (+44) 20 7873 0011

Telephone orders: (+44) 20 7873 9090

Fax orders: (+44) 20 7873 8200

Web: www.hmso.gov.uk

alternatively search the web-site: www.europa.eu.int/eur-lex/en/search/seacr_h_oj.html

Given below is an overview of mandatory requirements for the labeling of third country wines imported into the UK.

For third country wines with no geographical description the mandatory requirements are:

- S the word “wine” } or a combination of these terms using
- S country of origin } “country” (as an adjective) “wine”
- S name and head office address of the responsible packer
- S lot mark
- S nominal volume
- S name and head office address (including member state) of the importer (if the wine is imported already prepackaged)
- S actual alcoholic strength

For third country wines described by geographical origin the mandatory requirements are:

- S country of origin
- S geographical unit
- S name and head office address of the responsible packer
- S lot mark
- S nominal volume
- S name and head office address (including member state) of the importer
(if the wine is imported already prepackaged)
- S actual alcoholic strength

NOTE: The following descriptions must NOT appear anywhere:

1. "Contains sulphates/sulfates/sulfites"
2. "Table Wine" - this term is not allowed on any wines coming in from outside the EU
3. "Surgeon General's Warning" - this is not a recognized authority in the EU

Further explanation of some terms given above:

Lot Marketing

The Food (Lot Marking) Regulations 1996, set out the lot marking requirements to be applied to all foodstuffs sold for human consumption (unless specifically exempted) including wines and spirits. These Regulations implement Council Directive 89/396/EEC (OJ No. L186) on indications and marks identifying the lot to which a foodstuff belongs, as amended by Council Directives 91/238/EEC (OJ No. L107) and 92/11/EEC (OJ No. L65).

In summary, this means that the producer and packer must apply to each unit making up a homogenous group - referred to as a "lot" - a mark identifying the lots from which that unit came. The lot mark may appear anywhere upon the package including the seal, however, it CANNOT appear on the cork. It must be indelible, clearly visible and (although the characters used may be of any size) intelligible to anyone. The mark can be of any length and can comprise of alpha and/or numeric characters. To avoid the forced opening of cases, outer cases should also carry the lot marks of their contents.

Nominal Volume

The nominal volume must be stated on the label and the minimum height of characters used is:

- 2mm - for containers holding 20cl or less
- 3mm - for containers holding 21cl - 1 liter
- 5mm - for containers holding more than 1 liter

The permitted packaging sizes for wine in the EU are:

Product Type	Sizes Permitted
Still wine not exceeding 15% vol	10cl, 25cl, 37.5cl, 50cl, 75cl, 1L, 1.5L, 2L, 3L, 5L, 6L, 9L, 10L
Still wine of over 15% vol	any size up to 10cl, 20 cl, 37.5cl, 50cl, 75cl, 1L, 3L, 5L
Sparkling and Aerated Sparkling Wines	12.5cl, 20cl, 37.5cl, 75cl, 1.5cl, 3L, 4.5L, 6L, 9L

Actual Alcoholic Strength

Alcoholic strength is expressed using the OIML (Organization International Metrologique Legale) notation representing the number of parts of alcohol in relation to parts of water in a given quantity measure at the reference temperature of 20 degrees Centigrade.

The strength so determined must be declared on every label either as “x% vol” or “Alcohol x% vol” to the nearest half percent volume i.e. 11% or 11.5% vol, NOT 11.2% vol. The minimum character height for this statement is the same as for nominal volume.

Further information on regulatory requirements can be obtained through:

Department of Environment, Food & Rural Affairs
Alcoholic Drinks Division
Room 201
Whitehall Place (East Block)
London SW1A 2HH
Tel: (+44) 20 7270 8929
Fax: (+44) 20 7270 8733

Wine Standards Board of the Vintners' Company
Five Kings House
1 Queen Street Place
London EC4R 1QS
Tel: (+44) 20 7236 9512
Fax: (+44) 20 7236 7908

Taxes

In addition to tariff (import) duty, U.S. wine is subject to excise duty and a Value Added Tax (VAT).

The import duty is dependent on the origin and volume of alcohol. Example import duties:

- Sparkling wine 32 Euro/HL
- Still light wine 13.1 Euro/HL, 15.4 Euro/HL
- Vermouth & flavored wine 10.9 Euro/HL

Excise duty is payable upon entry into the domestic market. This duty forms the largest tax burden put onto the price of wine. The UK rates of excise duty applied to imported wine are shown in the table below (in strength measured by reference to the following percentages of alcohol at a temperature of 20 degrees Celsius).

Class or Description	Tax type code	Rate of Excise Duty
Sparkling exceeding 5.5% but less than 8.5%	412	£166.70 per HL
Sparkling 8.5% and above but not exceeding 15%	411	£220.54 per HL
Still exceeding 6.5% but not exceeding 15%	413	£154.37 per HL
Still or sparkling exceeding 15% but not exceeding 22%	415	£205.82 per HL
Still or sparkling exceeding 22%	419	£19.56 per liter of alcohol in the wine

Source: HM Customs and Excise, Portcullis House
 27 Victoria Avenue, Southend on Sea, Essex SS2 6AL
 Tel: +(44) 1702 367330/361979 Fax: +4(44) 1702 367253/361975
 E-mail: enquiries.lon@hmce.gsi.gov.uk Web: www.hmce.gov.uk

Value Added Tax (VAT) is applied ad valorem on the landed price (CIF) on arrival at the EU frontier plus all duties. The current rate of VAT is 17.5%.

For example a 75cl bottle of still light wine sold for £4 in the UK may have the following price composition:

£1.76 VAT & Duty
 £1.35 UK Value Added
£0.89 Overseas costs
 £4.00 Total retail sale price

Import duty is payable on samples used at trade fair tastings because of their promotional nature, public access and loss of control by HM Customs & Excise.

Import duty is not payable in cases where organoleptic tasting by professionals takes place within companies for the purpose of quality control, provided that the wine is not consumed.